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LETTER TO COMMISSION  
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TO: Mayor Phillip Levine and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: February 10, 2015

SUBJECT: Status Report on Changes to Office of Housing and Community Services

The purpose of this Letter To Commission is to provide a status update on the Office of Housing and Community Services, formerly known as the Office of Real Estate, Housing and Community Development.

In May 2013, Anna Parekh, the department's then director, was terminated for asking staff to falsify records submitted to the U.S. Department of Housing and Community Development (HUD). This triggered a thorough review of the department including its staff, fiscal processes and operations. In addition to an exhaustive internal review, the City contracted with Grant Thornton, LLP to conduct a forensic audit of two Miami Beach Community Development Corporation (MBCDC) properties that were heavily funded by the City and experienced significant cost overruns. While the results of the forensic audit were transmitted separately, the summary below provides an additional dimension to the scope of problems identified within the Housing and Community Development Division.

The internal division review uncovered various operational failures including:

- Failure to properly monitor HUD-funded activities (including procurement, expenditures and housing operations);
- Missing program documentation including expense records and Environmental Review forms, among others;
- The expenditure of newer money first leading to the recapture of funds which had not been committed and expended within HUD-prescribed timelines;
- Failure to ensure Davis-Bacon Act compliance on HUD-funded capital projects
- Non-compliance with the State Housing Initiatives Program (SHIP) dating back to fiscal year 2009/10; and
- SHIP-funded recipients sub-leasing their assisted units in violation of program terms.

A review of the division's fiscal processes revealed:

- The release of hundreds of thousands of dollars for capital projects without site inspections, review of Building Department inspections, or verification of expenditures submitted;
- Failure to holistically review reimbursement requests between Community Development Block Grant (CDBG), HOME Investment Partnership (HOME), and other sources for mutually-funded activities to prevent double-billing;
- Payments for expenditures incurred years before the execution of the City funding agreement;
- Change order expenses (some greater than 30% the original estimate) were processed without City Manager approval; and

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- Project construction costs exceeding the valuation amounts reported to the City's Building Department were processed for reimbursement despite discrepancy.

#### Housing & Community Development Division Staff

The Housing and Community Development Division experienced a 67 percent staff turnover rate since May 2013 as a result of terminations and resignations realized during the division-wide review. These included the following mission critical positions:

- Department Director
- Community Development Block Grant (CDBG) Monitor
- Neighborhood Stabilization Program (NSP) Monitor

#### Progress and Interventions

The complexity of HUD regulations requires that staff be familiar with federal guidelines and program-specific rules and their application. Building a strong staff was the first objective once an assessment of the department and its operations was completed. Maria Ruiz was appointed interim director in May 2013 and was formally appointed as permanent director in January 2014. In turn, she oversaw the termination and/or resignation of several staff members and the subsequent hiring of new personnel.

Several operational changes impacting staff were undertaken:

- Work teams have been identified to expand internal knowledge of funded projects and funding programs and create redundancy in the event of staff loss.
- Compliance workbooks were created to help program monitors track grant agreements ensuring compliance with HUD regulations as well as create a longitudinal summary of the project, its progress, its outcomes and related expenditures, including leverage and in-kind resources.
- The reimbursement process was amended to require review by program monitors within 10 days of receipt and requires an additional review and sign-off by the department's Financial Analyst and Department Director before the release of funds.

In addition, significant operational changes have been made:

- CDBG and HOME contracts have been amended to ensure that HUD-required documentation is contractually stipulated and that compliance information is presented in a clear manner.
- Monitoring checklists have been created for HUD-funded programs to ensure that monitors and sub-recipients achieve compliance with HUD rules and regulations.
- Funded capital projects subject to Davis-Bacon Act compliance receive on-site monitoring visits with a minimum of two (2) staff members conducting job site interviews to ensure integrity of the process and variety of covered on-site job classifications.
- Uniform reporting templates were created to facilitate sub-recipient reporting and to ensure that required information is provided at the time that reimbursement is sought.
- The annual Requests For Proposal (RFP) for HUD funds was streamlined to reduce submission time and priority objectives were aligned with the City's citywide priorities.

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- The Department assumed management of the SHIP program and will begin providing homeowner-occupied rehabilitation assistance beginning in February 2015

Fiscal processes were amended as well:

- Advance payments require prior approval by the City Manager and must be accompanied by evidence of expenditure within 10 days of payment receipt. Additional advance payments cannot be processed until all prior funds have been accounted for and submitted with required documentation.
- Reimbursement requests must be submitted within 60 days of expenditure and require cancelled checks and correlating documentation.
- Sub-recipients will not receive new funds until all prior awarded funds are accounted for and projects are closed as completed.

Additional accomplishments include:

- The recapture of \$154,348 in SHIP funds from four sub-recipients with an additional \$45,000 pending payment in the coming weeks and additional cases identified for repayment or renegotiation. In most cases, the funds were recaptured from assisted participants who leased their homes to others in violation of program rules.
- The certification of Carrfour Supportive Housing as a Community Housing Development Organization (CHDO) as MBCDC was de-certified and had been the sole CHDO for more than a decade.
- The acquisition of the London House Apartments, a 24-unit development currently under rehabilitation that will produce one-, two- and three-bedroom units of much needed affordable housing for families
- The preservation of \$1,327,579 in NSP3 funds that were subject to recapture for missing the expenditure deadline.
- The acquisition of the Lottie and Madeleine Apartments and creation of operating reserve accounts for both buildings.
- The creation of processes, forms and lease documents to manage the City's newly-acquired affordable housing properties.
- The anticipated acquisition this week of the Neptune Apartments and the Barclay Plaza Apartments.

If you have any questions, please feel free to see me.

JLM/KGB/MLR